

PSC ISSUES DECISION IN EMPIRE DISTRICT ELECTRIC COMPANY RATE CASE

Jefferson City (September 20, 2001)---The Missouri Public Service Commission has cut, by more than half, a permanent electric rate increase request filed by The Empire District Electric Company. In today's decision, the Commission granted the electric company a permanent rate increase of approximately \$17.1 million a year. When The Empire District Electric Company filed its rate request with the Public Service Commission on November 3, 2000, it sought to increase permanent electric revenues by approximately \$41.4 million a year.

The rate increase reflects the addition of the State Line Combined Cycle Power Plant as well as natural gas costs associated with the operation of that facility.

For a residential electric customer using 750 kwh (kilowatt-hours) a month, permanent electric rates will increase by approximately \$4.47 a month.

As part of its decision today, the Commission also approved an agreement reached by all parties in this case which will allow the electric company to incorporate an interim energy charge on customer bills which totals approximately \$19.6 million. The interim energy charge will be in effect for two years and is subject to refund with interest to customers of the Company.

The agreement filed by the Office of the Public Counsel, the PSC Staff, Praxair, Inc. and The Empire District Electric Company establishes an interim energy charge of approximately one-half cent per kwh (per kilowatt-hour) on customer bills. A residential customer using 750 kwh in a month would see their electric bill increase, on an interim basis, by about \$4.05 a month under the interim energy charge.

The interim charge, which would begin on October 1, 2001 and will expire on October 1, 2003, is designed to attempt to address the potential volatility in natural gas and wholesale electricity prices. The interim charge is subject to refund, with interest, depending on Empire's prudently incurred natural gas and purchased power costs over the two year period.

Parties to the agreement emphasized that The Empire District Electric Company is different from other electric utilities in the state with regard to its dependence upon natural gas-fired generation

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and purchased power, especially with the addition of the natural gas-fired State Line Combined Cycle generating plant. Parties to the agreement also noted that while some fuel costs are relatively stable, there has been recent volatility in the price of natural gas and purchased power, and there is great difficulty for anyone to attempt to predict with reasonable certainty what the market price of natural gas or purchased power will be at any given time in the future.

In this case, parties used a forecasted fuel method instead of the traditional historical method in determining natural gas and purchased power costs. The PSC Staff noted that in light of extraordinarily high natural gas prices and extreme volatility of natural gas, the traditional approach of determining fuel prices based on historical data would be inadequate.

The Commission stated in its order approving the agreement: "Utilizing the 'traditional' approach of attempting to ascertain a fixed cost for natural gas and purchased power prices carries with it the prospect of the ratepayers either paying significantly more or less than the actual costs. The Commission does not wish to subject either Empire or its customers to such potential extremes. The compromise approach fashioned by the parties in this proceeding ensures rate stability and seeks to prevent either 'windfall' profits or dramatic losses by ensuring that actual fuel and purchased power costs are the basis for the process to be used."

When the two year interim energy charge period has been completed, an audit will be conducted to determine if customers are due any refunds. Refunds, if ordered, will be in the form of a bill credit on current customer bills.

In this case, The Empire District Electric Company sought a return on equity (generally a return to their shareholder for investment in the company) of 11.5% to 12%. The Commission, based upon a thorough review of the evidence, determined that the Office of Public Counsel's recommendation of 10.00% should be adopted.

The Empire District Electric Company serves approximately 126,500 electric customers in the Missouri counties of Barry, Barton, Cedar, Christian, Dade, Dallas, Greene, Hickory, Jasper, Lawrence, McDonald, Newton, Polk, St. Clair, Stone and Taney.

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